

# **THE LEONARD LETTER**

*A weekly electronic newsletter about  
California government, business and taxes*

*Bill Leonard, Member  
State Board of Equalization*

*January 2, 2007*

## **QUOTE OF THE WEEK**

*“Our Constitution works; our great Republic is a Government of laws and not of men. Here the people rule. But there is a Higher Power, by whatever name we honor Him, who ordains not only righteousness but love, not only justice but mercy.”  
--- President Gerald R. Ford, August 9, 1974, speech upon assuming the Presidency after President Nixon’s resignation.*

## **AROUND THE STATE**

### **\*\*\*State Revenue Cannot Keep Up with Spending\*\*\***

Last week's story about Taxpayer X, the Californian who settled with the state with a payment of \$200 million in income taxes, shows just how volatile the state tax is. Just one taxpayer under California's hyperprogressive tax system can pay enough to meet the state's revenue estimates. If not for this one person we would have fallen below our estimates. In truth, we did fall below our estimates because this payment is a one-time payment and will not be repeated in future years. California's spending binges are overly dependent on a few wealthy individuals gaining financial windfalls and then paying taxes on them. We are fast running out of Californians who can do this. While we may have made our estimates in revenue for this period, my prediction still stands that the state is about to hit a revenue wall. Spending cuts are the only answer.

### **\*\*\*Death Row 5 Star Facility\*\*\***

Based on suggestions from Senator Bob Presley when he was Secretary of Corrections, I introduced legislation six years ago to close San Quentin, move death row to a prison that had room to expand, then sell the land to the highest bidder and use the proceeds to pay for prison expansion. Guess what happened to that bill? Now the Department has announced that costs to improve death row at San Quentin are approaching the costs to buy and build a brand new prison almost anywhere else in California. I told you so, Gray Davis.

You would think that common sense ideas would at least get a fair hearing, but the truth

here could not stand the light of public scrutiny. The truth is that my (and others') plan for responsible prison expansion was derailed by the lawyers who represent death row inmates. (Yes, this is a special section of the state bar.) who all live in San Francisco just a ferry ride away from their clients in San Quentin, and none of them want to travel to Folsom, Corcoran, Tehachapi, or other locations to do their jobs. So, the plan was killed because it would inconvenience lawyers. Now is going to cost taxpayers a third of a billion dollars-- triple the estimate of a few years ago!

### **\*\*\*Judges Should Not Legislate\*\*\***

An LA County judge has read into the state's constitution that a 1946 vote to remove restrictive language requiring school governance by cities from the Constitution was really an order for the Legislature to never allow schools to share power with cities. The truth is that the people were removing a restriction from the Constitution and giving the Legislature power to develop the best methods for school governance. Now after 60 years of schools being governed by single interest-- school boards dominated by single interests-- it is time to try new methods.

I do not know if Mayor Antonio Villaraigosa's bold plan to have the Mayor share power with the school board will work, but I defend his and the Legislature's ability to try different methods that will push our public schools to do the job. What is wrong with tailoring governance over school policy to fit the community? What is wrong with the Legislature authorizing experiments and demonstrations in how to deliver education services like charter schools, larger school boards, elections by area or district-wide? There is no bar in the Constitution to these actions, and this judge should run for the Legislature if she wants to vote on school governance.

### **\*\*\*Change of Perspective\*\*\***

The job descriptions of "legislator" and "executive" are different. Yet, one would hope that a person lives the same values no matter which title is held. That thought came to mind when I read a quote from now-Mayor Antonio Villaraigosa. As Mayor, Villaraigosa is facing a \$250 million budget shortfall and wrote to his department heads asking them to cut their budget requests by 5% and make those requests "based on demonstrated results, not because a program has existed and operated for many years." This is a responsible approach from a chief executive, but it does not reflect my memory of Villaraigosa as Speaker of the State Assembly. Indeed, I cannot find a record of him calling for such appropriate restraint when he was a legislator. Clearly his new executive branch responsibility has given him a new perspective; it is one that is much needed, perhaps we should find some way to help legislators see the budget from the executive's broad perspective.

## **TAX TIPS**

### **\*\*\*Do You Eat Alpacas?\*\*\***

A recent inquiry from a constituent has led to my discovery of yet another hole in our tax regulations. I was asked by someone who raises alpacas whether the animals are subject to the state sales tax. Law on this topic follows this general rule: if an animal is raised to be consumed as food by humans, it is not subject to the sales tax; if an animal is raised for a purpose other than that, it is subject to the same sales tax as any tangible personal property. The alpaca farmer had looked on the Board of Equalization's website and found our Regulation 1587, which explains what I have written above. It specifically calls out "cattle, sheep swine, baby chicks, hatchling eggs, and bees," and later added ostriches and emus, plus an annotation for llamas. Then it says that any other animal called out by the state's Food and Agriculture regulations as a "food animal" was also exempt from sales tax.

Upon further review, I discovered that there is no Food and Ag regulation; there is no list for anyone to reference. This leaves everyone, from alpaca farmers to Board members, wondering what the rules are. Which tax laws apply to alpacas—the ones that apply to cattle or the ones that apply to llamas? I have called on Board staff to fix the problem and bring some common sense to the situation.

## **ISSUE FOCUS**

### **\*\*\*A Better Way to Fight Poverty – Economic Growth\*\*\***

To many on the left, the social compact requires government to play the role of Robin Hood. Over the last 40 years this policy, while well-meaning, has not proven effective except to sort-of soothe the conscience of America. But I say it is not moral to see poor people and think, "All we can do is keep paying taxes." Those of us on the right have long-argued the only effective way to lift people out of poverty is to make the economic pie larger and create more opportunities. There will always be some very needy people that will need government help – it is a utopian fantasy to believe otherwise. But it is a national disgrace how much multi-generational poverty there is in America. It should not be as bad as it is and something needs to be done about it.

A couple weeks ago the Goldwater Institute released a study that looked at Census Data dealing with poverty and looked for a connection with tax rates. What they found is illuminating, but not surprising.

The report, "How to Win the War on Poverty: An Analysis of State Poverty Trends," grades each state on its progress in reducing poverty. From 1990-2000, the national poverty rate fell by 5.3 percent to 12.4, and the childhood poverty rate fell by 9.4 percent to 15.4 percent. There are however, large variations between states. Some states reduced poverty more than 20 percent; others increased the level of poverty by more than 25 percent. The 10 states with the lowest tax burdens saw poverty decline 13.7 percent, more than twice the national average. The 10 states with the highest tax burdens had an average 3 percent rise in poverty. For instance, the report compared California with Arizona. In 1990, Arizona had the fifth-highest tax burden in the nation and almost 16 percent of

Arizonans lived below the poverty line. California, on the other hand, had a lower tax burden and a poverty rate of 12.5 percent. During the 1990s, Arizona's tax burden decreased and California's increased. Arizona's poverty levels fell to 13.9 percent, while California's rose to 14.2. You can read the full report here:

<http://www.goldwaterinstitute.org/aboutus/ArticleView.aspx?id=1197>

We should all give to charity, if we are able to do so. But we need to get past the thinking that all we can do for poor Americans is give them stuff. This strips away their humanity and turns people into objects of pity. There is another way, if we are brave enough to look at the evidence. I believe that God made people so that their humanity is realized by the exercise of free will. People can transform their lives and the lives of their children – but only if they have the opportunity to choose to do so.

I am reminded of a quote that is often falsely attributed to Abraham Lincoln, but was actually first said by William Boetcker, German-born Presbyterian clergyman who lived from 1873-1962. In 1916, he said:

“You cannot bring about prosperity by discouraging thrift.

You cannot help small men by tearing down big men.

You cannot strengthen the weak by weakening the strong.

You cannot lift the wage-earner by pulling down the wage-payer.

You cannot help the poor man by destroying the rich.

You cannot keep out of trouble by spending more than your income.

You cannot further the brotherhood of man by inciting class hatred.

You cannot establish security on borrowed money.

You cannot build character and courage by taking away men's initiative and independence.

You cannot help men permanently by doing for them what they could and should do for themselves.”

## MISCELLANY

### \*\*\*A Good Read\*\*\*

If you have not yet received your flu shot yet this season, perhaps this book will inspire you. “The Great Influenza: The Epic Story of the Deadliest Plague in History” by John M. Barry is a masterful narrative of the events of 1918 as well as an authoritative and disturbing morality tale of science, politics and culture. A description of the influenza virus and its constantly variable attack on the human body lays the groundwork. Mr. Barry weaves together multiple narratives of key individual scientists, of private institutions and of local, state and federal government agencies and the military in the middle of waging WW I. The first collision between epidemic disease and modern medical science indicates medical science still has a long way to go.

The 1918 pandemic is estimated to have killed between 50-100 million with the world population then at 1.8 billion. Several times more were killed in 24 weeks than AIDS has

killed in 24 years, more were killed in a year than the Black Death killed in a century. The world's current population is estimated to be slightly in excess of 6.5 billion. The obvious question of "Could it happen again?" is answered in the affirmative. The variable nature of influenza itself makes it likely. An effective vaccine may not be able to be produced in time to be useful in any circumstance due to known, inherent production delays. There has already been an experience in 1997 where a new or previously unknown characteristic of the virus delayed production of a vaccine for about a year, well beyond any period it would be useful in reducing the spread of an epidemic disease. Social and political issues seem likely to yield the same high variation in effectiveness as were experienced in 1918. Medical science has improved but other factors make the spread of disease more, not less, likely.

### **\*\*\*New Citizenship Test\*\*\***

To see the official answers to the pilot U.S. citizenship questions below, go to <http://www.uscis.gov/portal/site/uscis/menuitem.5af9bb95919f35e66f614176543f6d1a/?vgnextoid=dcf5e1df53b2f010VgnVCM1000000ecd190aRCRD>

31. We elect a President for how many years?
32. How old must a President be?
33. The President must be born in what country?
34. Who is the President now?
35. What is the name of the President of the United States?
36. Who is the Vice President now?
37. What is the name of the Vice President of the United States?
38. If the President can no longer serve, who becomes President?
39. Who becomes President if both the President and the Vice President can no longer serve?
40. Who is the Commander-in-Chief of the military?

## **BOE AND LEGISLATIVE DATES**

**January 3, 2007**--- Legislature reconvenes.

**January 8, 2007** --- Swearing-in of new state Constitutional officers including yours truly.

**January 9, 2007** --- Governor delivers State of the State Address on crutches, balanced on one leg or perhaps special effects magic.

**January 10, 2007** --- Budget Bill must be submitted by Governor (Art. IV, Sec. 12 (a)).

**January 15, 2007** --- Rev. Martin Luther King Jr. holiday.

**January 26, 2007** --- Last day for legislators to submit bill requests to the Office of Legislative Counsel.

**January 31, 2007** --- Board of Equalization meets in Sacramento.

**February 1, 2007** --- Board of Equalization meets in Sacramento.

**February 12, 2007** --- Abraham Lincoln's Birthday.

**February 19, 2007** --- George Washington's Birthday observed.

**February 23, 2007** --- Last day for bills to be introduced (J.R. 61(a)(1), J.R. 54(a)).

**February 27-28, 2007** --- Board of Equalization meets in Culver City.

## **NOTABLE DATES/ HISTORY**

**January 2, 1910** --- The first junior high schools in the U.S. open in Berkeley, CA.

**January 2, 1972** --- Radio and television advertising of cigarettes ended as a result of a new law.

**January 3, 1521** --- Martin Luther was excommunicated by the Roman Catholic Church.

**January 3, 1938** --- The March of Dimes was founded by President Franklin D. Roosevelt.

**January 3, 1947** --- The first opening session of Congress was televised.

**January 4, 1493** --- Columbus left the new world, returning from his first voyage.

**January 4, 1885** --- The first successful appendectomy was performed in Davenport, Iowa.

**January 5, 1933** --- Construction began on the Golden Gate Bridge in San Francisco.

**January 6, 1941** --- Franklin Roosevelt made his Four Freedoms speech: "In the future days which we seek to make secure, we look forward to a world founded upon four essential human freedoms. The first is freedom of speech and expression — everywhere in the world. The second is freedom of every person to worship God in his own way — everywhere in the world. The third is freedom from want, which, translated into world terms, means economic understandings which will secure to every nation a healthy peacetime life for its inhabitants — everywhere in the world. The fourth is freedom from fear, which, translated into world terms, means a world-wide reduction of armaments to

such a point and in such a thorough fashion that no nation will be in a position to commit an act of physical aggression against any neighbor — anywhere in the world.”

**January 7, 1913** --- The process to obtain gasoline from crude oil was patented.

**January 7, 1948** --- President Truman raised taxes to pay for the Marshall Plan, which rebuilt Europe after WWII.

**January 8, 1790** --- George Washington delivered the first “State of the Union” address.

**January 8, 1815** --- The Battle of New Orleans was fought.

## GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115  
TDD service for the hearing impaired  
TDD phones: 800-735-2929  
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate’s office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

## HOW TO CONTACT ME

Bill Leonard, Member  
State Board of Equalization, Second District  
Email: [bill.leonard@boe.ca.gov](mailto:bill.leonard@boe.ca.gov)

Northern California Office:

400 Capitol Mall, Suite 2340  
Sacramento, CA 95814  
Telephone: (916) 445-2181  
Fax: (916) 327-4003

Southern California Office:  
4295 E. Jurupa Ave., Ste. 204  
Ontario, CA 91761-1428  
Telephone: (909) 937-6106  
Fax: (909) 937-7044

